



Foundation Certificate in Marketing - Stage 1

ECONOMICS

TUESDAY, AUGUST 18, 2009. TIME: 2.00 pm - 5.00 pm

Please attempt **FIVE** questions.

(If more than the specified number of questions are attempted, delete those you do not wish to have marked. Otherwise the Examiner will mark the **FIRST** five questions in your Answer Book).

All questions carry equal marks.

Do **NOT** repeat question in answer, but show clearly the number of the question attempted on the appropriate page of the Answer Book.

1. Discuss the economic issues that arise in the case of **two** of the following:
 - A decline in prices
 - A reduction in public healthcare expenditure
 - A rise in unemployment

2. Can you explain both the extraordinary rise in house prices in Ireland from the mid 1990's to the mid 2000's, and the subsequent decline.

3. Answer (a) **or** (b)
 - (a) Write short notes explaining the importance of **each** of the following:
 - Price elasticity of demand
 - Cross price elasticity
 - Income elasticity

 - (b)
 - (i) When the price of a product falls from €5 to €4 the demand increases from 20 units to 30 units. Estimate the price elasticity.
 - (ii) Suppose that this good has a complement, and following the price fall the demand for the complement increases from 10 units to 15 units, what is the cross price elasticity between the two goods?
 - (iii) If a person's income decreases from €100,000 to €50,000 and the demand for a good decreases from 10 units to 2 units as a consequence, what is the income elasticity of the good?

P.T.O.

4. Answer (a) **or** (b)

(a) Explain why competitive markets lead to lower prices and greater output than arise in monopoly.

(b) The demand for a product is given by

$$D = 9 - 0.5P$$

while supply is given by

$$S = 1 + 0.5P$$

What is the equilibrium price and quantity in the market for this good?

Suppose a tax of €1 is put on each unit of the product, what is the new equilibrium price and quantity?

5. Explain why firms form cartels, and why governments have made them illegal where they have jurisdiction.
6. In addition to monetary policy concerns central bankers need to consider the financial stability of the whole system. Explain why monitoring the cash (reserve) ratio is not sufficient for this purpose. What other prudential rules could be useful in preserving financial stability.
7. What problems have arisen with the application of discretionary fiscal policy in the past? Is the present situation serious enough to ignore these concerns?
8. Over the past 10 years Ireland has experienced a loss of competitiveness. How can this be restored in the absence of a separate currency?